

THE OFFICE OF REGULATORY STAFF

DIRECT TESTIMONY & EXHIBITS

OF

AISHA L. BUTLER

DECEMBER 14, 2017



DOCKET NO. 2017-228-S

**Application of Palmetto Utilities, Incorporated for
Adjustment of Rates and Charges for Customers in the
Palmetto Utilities and Palmetto of Richland County Service
Areas**

DIRECT TESTIMONY OF

AISHA L. BUTLER

ON BEHALF OF

THE OFFICE OF REGULATORY STAFF

DOCKET NO. 2017-228-S

**IN RE: APPLICATION OF PALMETTO UTILITIES, INCORPORATED FOR
ADJUSTMENT OF RATES AND CHARGES FOR CUSTOMERS IN THE PALMETTO
UTILITIES AND PALMETTO OF RICHLAND COUNTY SERVICE AREAS**

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND OCCUPATION.

A. My name is Aisha L. Butler. My business address is 1401 Main Street, Suite 900, Columbia, South Carolina, 29201. I am employed by the South Carolina Office of Regulatory Staff ("ORS") in the Audit Department as a Senior Auditor.

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A. I received a Bachelor of Science Degree in Business Administration with a major in Finance from the University of South Carolina in May 2013. In June 2014, I began my employment with ORS and since then have participated in various audits dealing with the regulation of telecommunications, electric, and water and wastewater companies.

Q. HAVE YOU TESTIFIED PREVIOUSLY BEFORE THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA?

A. Yes.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony is to set forth my findings and recommendations resulting from ORS's examination of the application of Palmetto Utilities, Inc. ("PUI" or "Company") in this docket, 2017-228-S. The application was filed on August 31, 2017.

Q. PLEASE DESCRIBE THE PROCEDURES USED TO PERFORM THE EXAMINATION OF THE APPLICATION OF PUI.

A. ORS's examination of the Company's application consisted of three major steps. In step one, ORS verified that the operating experience, reported by PUI in its application, was supported by PUI's accounting books and records for the twelve months ending March 31, 2017 ("test year"). In the second step, ORS tested the underlying transactions in the books and records for the test year to ensure that the transactions were adequately supported, had a stated business purpose, were allowable for ratemaking purposes, and were properly recorded. Lastly, ORS's examination consisted of adjusting, as necessary, the revenues, expenditures, and capital investments to normalize the Company's operating experience and operating margin, in accordance with generally accepted regulatory principles and prior Public Service Commission of South Carolina ("PSC") orders.

Q. PLEASE IDENTIFY THE EXHIBITS ATTACHED TO YOUR TESTIMONY.

A. I have attached the following exhibits to my testimony relating to the application:

- Audit Exhibit ALB-1: Operating Experience & Operating Margin for Wastewater Operations
- Audit Exhibit ALB-2: Explanation of Accounting and Pro Forma Adjustments
- Audit Exhibit ALB-3: Computation of Depreciation and Amortization Expense
- Audit Exhibit ALB-4: Computation of Income Taxes

1 These exhibits were either prepared by me or were prepared under my direction and
2 supervision in compliance with recognized accounting and regulatory procedures for
3 wastewater utility rate cases. These exhibits show various aspects of PUI's operations and
4 financial position.

5 **Q. PLEASE DESCRIBE THE FORMAT OF AUDIT EXHIBIT ALB-1 AND**
6 **ELABORATE ON THE CALCULATIONS.**

7 **A.** Audit Exhibit ALB-1 details PUI's operating experience and operating margin for
8 wastewater operations for the test year. The exhibit's format is designed to reflect the
9 Company's application per book amounts, ORS's proposed accounting and pro forma
10 adjustments necessary to normalize the results of the Company's test year operations, and
11 calculate the impact of the Company's proposed increase on the normalized test year.

12 Column (1) details the application per book amounts reported by PUI for the test year. ORS
13 verified total operating revenue of \$16,256,412, total operating expenses of \$11,004,441 and
14 net income for margin of \$4,379,360 to the Company's books and records. The per books
15 operating margin of 26.94% was calculated by using total operating income, less other
16 income and deductions and interest expense, divided by total operating revenues.

17 Column (2) details ORS's proposed accounting and pro forma adjustments designed to
18 normalize PUI's application per books. An explanation of each adjustment is contained in
19 Audit Exhibit ALB-2.

20 Column (3) details ORS's calculation of a normalized test year for PUI by adding columns
21 (1) and (2). After the accounting and pro forma adjustments, net income for margin of
22 \$1,049,645 was computed using total operating revenues of \$16,440,513, less total operating
23 expenses of \$13,534,510, less interest expense of \$1,911,613, and adding customer growth

of \$55,255. An operating margin of 6.38% was computed by dividing net income for margin by total operating revenues.

Column (4) reflects the Company's proposed increase and taxes associated with the Company's proposed increase. An explanation of each adjustment is contained in Audit Exhibit ALB-2.

Column (5) details the effect of the Company's proposed increase by adding columns (3) and (4). Net income for margin of \$7,683,987 was computed using total operating revenues of \$27,147,980, less total operating expenses of \$17,731,426, adding customer growth of \$179,046, and less interest expense of \$1,911,613. An operating margin of 28.30% was computed by dividing net income for margin by total operating revenues.

Q. PLEASE EXPLAIN THE ADJUSTMENTS IN AUDIT EXHIBIT ALB-2.

A. For comparative purposes, ORS's and PUI's proposed adjustments are both presented in Audit Exhibit ALB-2.

Adjustment 1 – Wastewater Sales Revenues – The ORS Utility Rates Department proposes to normalize wastewater sales revenues for the test year. Details of the wastewater sales revenues adjustment of \$184,101 are set forth in the direct testimony of ORS witness Michael Seaman-Huynh.

Adjustment 2 – Other Wastewater Revenues – The ORS Utility Rates Department does not propose an adjustment to normalize other wastewater revenues for the test year. Details are set forth in the direct testimony of ORS witness Michael Seaman-Huynh.

Adjustment 3 – Operating Expenses – ORS's total operating expenses adjustment is \$1,509,753. This adjustment is comprised of the following operating expense adjustments:

Adjustment 3A – Purchased Wastewater Deferral – ORS and PUI propose an adjustment to reflect the amortization of deferred City of Columbia wastewater treatment costs. PUI proposes an overall adjustment of \$511,775, which is based on the 7 year amortization of actual deferrals from 3/31/16 through 4/26/17, plus an estimated amount for deferrals from 4/27/17 through 7/15/17. ORS proposes an adjustment of \$503,272 which reflects the 7 year amortization of actual deferrals from 3/31/16 through 8/2/2017. Per recommendation of the ORS Utility Rates Department, a change in the original expensed amount from \$77,272 to \$85,275 was calculated by multiplying 11,370 customers by the \$7.50 wholesale rate effective as of April 2016. This rate was included in Docket No. 2016-255-S Accounting Order No. 2016-605. The number of customers was included in Order No. 2012-960.

Adjustment 3B – Elimination of City Billing for Wastewater Treatment – ORS and PUI propose an adjustment of (\$927,258) to reflect the elimination of city billing for wastewater treatment.

Adjustment 3C – Sludge Removal Expense – PUI proposes an adjustment to reflect the increase in sludge removal expense based on the Company's estimated increase in flow at the wastewater treatment plant. PUI uses an estimate as the basis for its adjustment. It is ORS's position that the Company should only be eligible to recover incurred expenses that are known and measurable and supported by actual invoices. The estimates used by the Company to compute the proposed adjustment are not known and measurable and could not be supported by invoices. ORS acknowledges there will be an increase in sludge removal going forward and proposes an adjustment of \$1,614 which is reflective of the actual increase in the Company's sludge removal expense based on the most recent twelve

1 months of invoices as of the November 16th cutoff date (“cutoff date”) established by ORS.
2 The twelve invoices totaled \$250,393 which is a \$1,614 increase from the Company’s test
3 year per book amount of \$248,779.

4 Adjustment 3D – Purchased Power – ORS and PUI propose an adjustment to purchased
5 power to reflect the increase in electricity costs related to the new lift stations. The
6 Company’s adjustment is not known and measurable as it is based on an estimate. ORS
7 recognizes that the Company will have an increase in purchased power costs. ORS
8 proposes an adjustment of \$113,470 which reflects the annualization of the Company’s
9 most recent purchased power expenses as of the cutoff date. ORS totaled the Company’s
10 October 2017 purchased power invoices, removing nonallowable charges associated with
11 non-business related addresses and charges related to the Company’s customer service
12 building and corporate headquarters building that should be allocated to all Ni Pacolet
13 Milliken Utilities, Inc. (“Ni Pacolet”) companies. The annualized allowable expenses
14 totaled \$881,747 which is a \$113,470 increase from the Company’s per book amount of
15 \$768,277. The charges related to the customer service and business headquarters have
16 been allocated as part of adjustment 3L.

17 Adjustment 3E – Chemical Expense – PUI proposes an adjustment of \$55,830 to reflect
18 the increase in chemical expense based on the Company’s estimated increase in flow at the
19 wastewater treatment plant. The estimate used by the Company to compute the proposed
20 adjustment is not known and measurable. Upon request, the Company was unable to
21 provide an invoice reflecting the increase in chemical expense prior to the cutoff date.
22 Therefore, ORS proposes no adjustment to chemical expense.

1 Adjustment 3F – Contract Services – Management Fees – PUI proposes a \$56,503
2 adjustment to adjust contract services related to management fees based on an estimated
3 annual increase beginning January 2018. Section 4.6 of the contract between Ni Pacolet
4 and ESG Operations, Inc. (“ESG”) states that “at least thirty days prior to each anniversary
5 of the Effective Date, ESG shall submit to Owner a proposed Base Fee for the upcoming
6 Contract Year. In the event the Owner and ESG fail to agree, the Base Fee will be
7 determined by the application of the Base Fee adjustment formula.” The management fees
8 increase proposed by the Company has not yet been incurred and is not known and
9 measurable. Therefore, ORS proposes no adjustment to management fees.

10 Adjustment 3G – Contract Services – Testing – PUI proposes a \$5,042 adjustment to adjust
11 contract services related to testing expenses. The Company’s adjustment is based on an
12 estimate and is therefore not known and measurable. Upon request, the Company was
13 unable to provide invoices supporting the increase in testing expenses by the cutoff date.
14 Therefore, ORS proposes no adjustment to testing expense.

15 Adjustment 3H – Contract Services – Other – ORS and PUI propose a (\$69,192)
16 adjustment to other contract services to reflect the elimination of City of Columbia billing
17 for meter reading.

18 Adjustment 3I – Rent Expense – PUI proposes an (\$8,384) adjustment to rent expense to
19 reflect a reduction in rent for the portion allocated to Palmetto Wastewater Reclamation
20 (“PWR”) and Ni Florida. The rental associated with this adjustment is the 1713 Woodcreek
21 Farms Road customer service building (“1713 Woodcreek”) which provides customer
22 service for PUI, Palmetto of Richland County (“PRC”), and other Ni Pacolet companies.
23 During our examination, ORS identified other expenses related to 1713 Woodcreek and

the corporate headquarters building located at 1710 Woodcreek Farms Rd ("1710 Woodcreek") being directly booked to PUI that should also be allocated. ORS has included the rent expense and all other identified expenses associated with 1710 Woodcreek and 1713 Woodcreek in adjustment 3L, the miscellaneous overhead allocation adjustment.

Adjustment 3J – Rate Case Expenses – ORS and PUI propose a rate case expense adjustment to reflect the amortization of rate case expenses. PUI proposes an adjustment of \$45,693 which reflects the difference between the three year amortization of \$241,955 of rate case expenses and the Company's \$34,959 per book amount. After review of the Company's rate case expenses submitted by the cutoff date, ORS proposes an adjustment of (\$16,628). This adjustment reflects the difference between the five year amortization of \$91,657 of rate case expenses and the Company's \$34,959 per book amount. ORS disallowed lobbying expenses and expenses for which the Company did not provide itemized receipts. ORS also disallowed 50% of the cost for a room rental for a town hall meeting, expenses related to the second notification mailing, and invoices not detailing the work performed by a vendor. ORS disallowed rate case expenses totaling \$74,593.

Adjustment 3K – Bad Debt Expense – ORS and PUI propose an adjustment to normalize test year bad debt expense. The Company proposes a (\$2,701) adjustment to bad debt expense. The ORS Utility Rates Department proposes to calculate bad debt expense by applying a bad debt percentage of 2.5% to operating revenues. This methodology was proposed by the Company in its application. ORS's proposed adjustment is \$1,902.

Adjustment 3L – Miscellaneous Expense – ORS and PUI propose an adjustment to miscellaneous expense to include allocated corporate overhead in the cost of service. The Company proposes a \$2,378,220 adjustment. ORS calculated an adjustment of \$2,289,922.

1 Per recommendation from the ORS Utility Rates Department, a portion of an employee's
2 salary and benefits, previously recovered in the Lockhart Power Company rate case
3 (Docket No. 2013-392-E), was removed from the Pacolet Milliken Enterprises, Inc. salaries
4 and benefits the Company proposed to allocate. ORS witness Michael Seaman-Huynh
5 further details this adjustment in his direct testimony. ORS also removed expenses with
6 insufficient supporting documentation or itemized receipts, expenses outside of the test
7 year, expenditures with no business purpose, and expenses associated with Ni Pacolet's
8 Florida rate case. ORS also eliminated nonrecurring expenses such as former employee
9 expenses and expenses related to an office in Houston, Texas which is now closed. In the
10 calculation of the adjustment, ORS also added in 1713 Woodcreek and 1710 Woodcreek
11 expenses that were directly booked to PUI, that should be allocated to all Ni Pacolet
12 companies. The salary for a newly established Tap Fee Coordinator position is also
13 included in this adjustment. This position was formerly an administrative assistant position
14 which was the only salary being booked directly to PUI.

15 ORS calculated total allocable overhead expenses of \$3,163,137 and allocated the entire
16 amount, excluding the Tap Fee Coordinator salary, to each of the Ni Pacolet companies
17 based on their respective percentage of equivalent residential customers ("ERCs") which
18 were provided by ORS witness Michael Seaman-Huynh. The Tap Fee Coordinator salary
19 was allocated to all of Ni Pacolet's South Carolina utility companies. The allocation
20 percentage assigned to PUI based on all Ni Pacolet companies' ERCs is approximately
21 72.18%. The ERC allocation percentage assigned to PUI for Ni Pacolet South Carolina
22 utility companies only is approximately 80.17%.

1 Adjustment 3M – Nonallowables – ORS proposes to remove expenses of (\$222,673) that
2 are not necessary for providing sewer service to customers and are not allowable for
3 ratemaking purposes. These expenses include items such as late fees, nonrecurring
4 expenses for former employees, expenditures with no business purpose such as coffee and
5 candy purchases, and other miscellaneous expenses not adequately documented. The ORS
6 Utility Rates Department also recommended the removal of expenses related to the Rapid
7 Infiltration Basins (“RIBs”) that the Company has closed and is no longer using. ORS
8 witness Michael Seaman-Huynh provides more details on the RIBs closure in his direct
9 testimony.

10 Adjustment 3N – Reclass Directly Booked Expenses – ORS proposes to remove
11 (\$137,873) of salaries and expenses directly booked to PUI. Of the \$137,873, \$99,713 are
12 expenses related to 1710 Woodcreek and 1713 Woodcreek that ORS proposes to reclass as
13 overhead expenses to be allocated to all Ni Pacolet utility companies as part of adjustment
14 3L. The expenses ORS proposes to reclassify include rent, maintenance, office supplies,
15 postage, telephone/internet, and purchased water. The remaining \$38,160 was the salary
16 for the former administrative assistant position that was being directly booked to PUI and
17 has since been replaced by the newly established Tap Fee Coordinator position. ORS
18 proposes to allocate the Tap Fee Coordinator salary to all of Ni Pacolet’s South Carolina
19 utility companies as part of adjustment 3L.

20 Adjustment 3O – Capitalized Expenses – ORS proposes to capitalize certain expenses. The
21 ORS Utility Rates Department identified (\$26,803) of expenses that should be capitalized.
22 Of the \$26,803, \$25,088 is related to PUI only and \$1,715 is related to all Ni Pacolet
23 companies. The total amount to be capitalized for PUI is \$26,326 and is included in Column

7 of Audit Exhibit ALB-3. The capitalized expenses include legal expenses, engineering, and maintenance expenses related to plant in service items.

Adjustment 4 – Depreciation and Amortization – ORS’s total depreciation and amortization expense adjustment is \$1,580,752. This adjustment is comprised of the following adjustments:

Adjustment 4A – Depreciation Expense – PUI proposes to adjust depreciation expense to reflect new capital expenditures. The Company proposes an adjustment of \$2,461,543. ORS proposes to adjust depreciation expense to reflect new capital expenditures and other adjustments to plant in service. The details of ORS’s proposed adjustment are shown in Audit Exhibit ALB-3. Column 1 of Audit Exhibit ALB-3 shows the Company’s filed per book plant in service amounts. Column 2 shows the adjustments made by the Company subsequent to the original filing. Column 3, the Company’s adjusted per book plant amounts, reflects the totals of Column 1 and Column 2. Column 4 details adjustments made by ORS for fully depreciated assets in each plant category based on the property records provided by the Company. ORS used the 2017 accrued factors included in the Company’s property records to calculate the fully depreciated assets. To calculate the accrued factor the Company computes the number of years the asset has been in service and divides it by the service life assigned to the asset. If the accrued factor is greater than or equal to 1 the asset has been fully depreciated.

Column 5 of Audit Exhibit ALB-3 accounts for the removal of nonallowable plant items removed in PUI’s previous rate case, Docket No.2013-42-S. Column 6 of Audit Exhibit ALB-3 details ORS adjustments for nonallowables as part of this docket. ORS removed duplicate items on the Company’s property records, land costs not supported by formal

1 easement or purchase agreements, and costs for which insufficient support documentation
2 was provided. The ORS Utility Rates Department also identified items that should be
3 removed including costs associated with the Crab Apple Lane property, RIBs, and PWR.
4 ORS also proposes the disallowance of PRC plant on the property records with an in service
5 date prior to 1/1/2013. The property records provided by the Company show the total
6 original cost of the PRC plant disallowed by ORS as \$29,939,269 which is net of \$21,224
7 in related retirements previously made by the Company. ORS witness Willie J. Morgan
8 further discusses the disallowance of this portion of PRC plant in his direct testimony.

9 During the plant review ORS also discovered plant items related to 1710 Woodcreek and
10 1713 Woodcreek that needed to be allocated. These costs were allocated by ERCs provided
11 by ORS witness Michael Seaman-Huynh. The costs not allocated to PUI or PRC were
12 removed as nonallowable. Column 7 of Audit Exhibit ALB-3 includes the capitalized
13 expenses as discussed in ORS adjustment 3O.

14 Column 8 of Audit Exhibit ALB-3 displays the addition of \$71,229,147 of proforma plant
15 that was provided by the Company through the cutoff date. During the examination of
16 proforma plant, ORS's Utility Rates Department identified nonallowable proforma plant
17 costs related to PWR, RIBs, overtime hours, and costs related to compliance issues such as
18 the installation of private wells and bottled water purchases that were not included by ORS.
19 Costs with insufficient support documentation were also not included by ORS.

20 As part of plant, the Company included capitalized labor and a capitalized portion of the
21 Operations, Maintenance, and Management Services contract with ESG. The Company did
22 not allocate the amounts to specific line items for proforma plant as was done for plant in
23 the continuing property records. As a part of the ORS calculation of allowable proforma

1 plant, ORS applied the percentage of nonallowables to the total proforma capitalized labor
2 and ESG contract amount in order to calculate the amount of capitalized labor and ESG
3 contract to disallow.

4 Column 9 of Audit Exhibit ALB-3 details the ORS calculated proforma retirement
5 amounts. In its original application, the Company proposed an estimated proforma
6 retirement amount of \$3,559,351 to reflect the retirement of Kelly Mill plant items. During
7 the rate case the Company proposed to decrease this retirement amount to reflect the actual
8 amount of Kelly Mill related plant remaining on the property records. ORS accepted the
9 Company's proposed methodology to decrease the retirement amount and calculated an
10 adjustment of (\$728,108).

11 Column 10 of Audit Exhibit ALB-3 displays ORS's plant in service as of the cutoff date.
12 The amounts in Column 10 reflect the total of Columns 3 through 9. Column 11 of Audit
13 Exhibit ALB-3 shows the service lives provided by ORS witness Michael Seaman-Huynh.

14 Column 12 of Audit Exhibit ALB-3 details the depreciation expense calculated by ORS by
15 taking the amounts in Column 10 and dividing them by the service lives in Column 11.
16 There are some categories, annotated with an asterisk, where depreciation expense will not
17 calculate. Some of the assets in these categories were close to being fully depreciated and
18 did not have a full year's worth of depreciation left. Therefore, the depreciation expense
19 for these categories were manually entered. The total ORS calculated depreciation expense
20 of \$4,892,415, less the Company's \$3,309,204 per book amount, yields ORS's
21 depreciation expense adjustment of \$1,502,211.

22 Adjustment 4B – Amortization of Contribution in Aid of Construction ("CIAC") – ORS
23 and PUI propose to adjust amortization of CIAC. The Company proposes an adjustment of

1 \$114,362. The details of ORS's proposed adjustment are shown in the CIAC portion of
2 Audit Exhibit ALB-3. Column 1 of Audit Exhibit ALB-3 shows the Company's filed per
3 books CIAC amounts. Column 2 shows the adjustments made by the Company subsequent
4 to the filing. Column 3 shows the Company's adjusted per book CIAC and reflects the total
5 of Column 1 and Column 2. Column 4 details adjustments made by ORS for fully
6 amortized CIAC in each category based on the property records provided by the Company.
7 ORS used the 2017 accrued factors included in the Company's property records to calculate
8 the fully amortized CIAC. To calculate the accrued factor, the Company computes the
9 number of years the asset has been in service and divides it by the service life assigned to
10 the asset. If the accrued factor is greater than or equal to 1 the CIAC amount has been fully
11 amortized.

12 Column 5 of Audit Exhibit ALB-3 contains a \$105,731 adjustment to CIAC associated
13 with the Crab Apple Lane property which was identified by the ORS Utility Rates
14 Department as nonallowable. Since the asset was removed, ORS removed the
15 corresponding CIAC as well. Column 6 details a \$484,137 adjustment to CIAC reflective
16 of the removal of the CIAC associated with the Company's proposed Kelly Mill proforma
17 retirement to plant in service. The amounts in Column 7 show ORS's calculated CIAC as
18 of the cutoff date. These amounts are calculated by totaling Columns 3 through 6. Column
19 8 details the service lives provided by ORS witness Michael Seaman-Huynh. Column 9
20 calculates the amortization expense by dividing the CIAC amounts in Column 7 by the
21 service lives in Column 8. The total ORS calculated amortization expense of (\$1,674,062),
22 less the Company's (\$1,752,603) per book amount, yields ORS's amortization expense
23 adjustment of \$78,541.

1 Adjustment 5 – Taxes Other Than Income – ORS’s total taxes other than income adjustment
2 is \$1,766,262. This adjustment is comprised of the following adjustments:

3 Adjustment 5A – Gross Receipts Tax – ORS proposes to adjust gross receipts taxes for the
4 accounting and pro forma adjustments made to operating revenues. To compute this
5 adjustment, a PSC/ORS factor of 0.005241690 was applied to the ORS proforma operating
6 revenue to decrease gross receipts taxes by (\$2,212).

7 Adjustment 5B – Property Taxes – PUI proposes to adjust property taxes to reflect new
8 capital expenditures. PUI proposes an adjustment of \$2,625,233. ORS proposes an
9 adjustment of \$1,768,474 to property taxes to reflect new capital expenditures and other
10 adjustments to plant in service. ORS computed the adjustment by applying the Company
11 proposed assessment ratio and millage rates to the net plant in service calculated by ORS as
12 of the cutoff date.

13 Adjustment 6 – Income Taxes – ORS’s total income taxes adjustment is \$2,326,698. This
14 adjustment is comprised of the following adjustments:

15 Adjustment 6A – Federal Income Taxes – ORS and PUI propose to adjust federal income
16 taxes after accounting and pro forma adjustments. ORS and PUI used a 34% rate for
17 calculation of federal income taxes. ORS proposes to decrease federal income taxes by
18 (\$1,278,107). Details of ORS’s computation of federal income taxes are shown in Audit
19 Exhibit ALB-4.

20 Adjustment 6B – State Income Taxes – ORS and PUI propose to adjust state income taxes
21 after accounting and pro forma adjustments. ORS and PUI used a 5% rate for calculation of
22 state income taxes. ORS proposes to decrease state income taxes by (\$174,913). Details of
23 ORS’s computation of state income taxes are shown in Audit Exhibit ALB-4.

1 Adjustment 6C – Deferred Income Taxes – PUI proposes to adjust deferred income taxes
2 to reflect new capital expenditures. The Company's deferred income tax adjustment was
3 computed by subtracting the proforma plant book depreciation amount from the proforma
4 plant tax depreciation amount. ORS's adjustment proposes to remove the Company's entire
5 (\$873,678) per book amount from income taxes as it should not be directly included in the
6 calculation of the Company's net income for margin.

7 Adjustment 7 – Other Income and Deductions – ORS's total other income and deductions
8 adjustment is \$1,272,663. This adjustment is comprised of the following adjustments:

9 Adjustment 7A – To Reverse Loss on Disposition of Property – PUI and ORS propose to
10 reverse the loss on disposition of property with an adjustment of (\$24,084).

11 Adjustment 7B – Exclusion of Allowance for Funds Used During Construction
12 ("AFUDC") – ORS and PUI propose an adjustment of \$1,296,747 to exclude AFUDC as
13 it should not be included in the calculation of the proforma revenue requirement. The
14 Company gains recovery of AFUDC through depreciation once the plant assets have been
15 placed in service.

16 Adjustment 8 – Interest Expense – PUI proposes to adjust interest expense to reflect new
17 capital expenditures. PUI calculated its estimated annual interest expense by multiplying the
18 total estimated borrowed debt amount by a 5% interest rate. ORS proposes to synchronize
19 the Company's interest expense with its allowable rate base, cost of capital, and income
20 taxes which is consistent with prior PSC treatment of interest expense. ORS calculated an
21 after accounting and proforma adjustment rate base of \$81,582,204. A capital structure
22 ratio of 45% long-term debt to 55% equity and a weighted average cost of debt of 4.84%
23 were applied to the rate base to generate the interest expense adjustment of (\$233,661).

1 Adjustment 9 – Customer Growth – ORS proposes to adjust customer growth for total net
2 utility operating income after the accounting and proforma adjustments. The ORS Utility
3 Rates Department computed a growth factor of 1.90140%. This factor was applied to the
4 total net utility operating income after accounting and proforma adjustments for a total
5 customer growth adjustment of \$55,255.

6 Adjustment 10 – Wastewater Sales Revenues – As calculated by the ORS Utility Rates
7 Department, PUI's proposed increase would produce additional wastewater sales revenues
8 of \$11,138,505. Details of this adjustment are shown in direct testimony of ORS witness
9 Michael Seaman-Huynh.

10 Adjustment 11 – Other Wastewater Revenues – As calculated by the ORS Utility Rates
11 Department, PUI's proposed increase would reduce other wastewater revenues by
12 (\$431,038). Details of this adjustment are shown in direct testimony of ORS witness Michael
13 Seaman-Huynh.

14 Adjustment 12 – Bad Debt Expense – ORS and PUI propose an adjustment to bad debt
15 expense to reflect the Company's proposed increase. The ORS Utility Rates Department
16 proposes to calculate bad debt expense by applying a bad debt percentage of 2.5% to
17 operating revenues. ORS's proposed adjustment is \$267,687.

18 Adjustment 13 – Gross Receipts – ORS & PUI propose to adjust gross receipts taxes for the
19 proposed increase. The current PSC/ORS factor of 0.005241690 was used to compute this
20 adjustment. ORS proposes to increase gross receipts taxes by \$56,125.

21 Adjustments 14 – Income Taxes – ORS's total proposed increase income taxes adjustment
22 is \$3,873,104. This adjustment is comprised of the following adjustments:

Adjustment 14A – Federal Income Taxes – ORS and PUI propose to adjust federal income taxes for the proposed increase. ORS and PUI used a 34% rate for calculation of federal income taxes. ORS proposes to increase federal income taxes by \$3,353,921. Details of ORS's computation of federal income taxes are shown in Audit Exhibit ALB-4.

Adjustment 14B – State Income Taxes – ORS and PUI propose to adjust state income taxes for the proposed increase. ORS and PUI used a 5% rate for calculation of state income taxes. ORS proposes to increase state income taxes by \$519,183. Details of ORS's computation of state income taxes are shown in Audit Exhibit ALB-4.

Adjustment 15 – Customer Growth – ORS proposes to adjust customer growth for total operating income after the proposed increase. The ORS Utility Rates Department computed a growth factor of 1.90140%. This factor was applied to the total operating income after the proposed increase for a total customer growth adjustment of \$123,791.

Q. PLEASE DESCRIBE THE REMAINING AUDIT EXHIBITS.

A. Audit Exhibit ALB-3 shows the computation of depreciation and amortization expense associated with plant in service and CIAC. Audit Exhibit ALB-4 shows the computation of income taxes.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

Palmetto Utilities, Inc.
Docket No. 2017-228-S
Operating Experience & Operating Margin
For the Test Year Ended March 31, 2017
Wastewater Operations

Description	(1) Application Per Books \$	(2) Accounting & Pro Forma Adjustments \$	(3) After Accounting & Pro Forma Adjustments \$	(4) Proposed Increase \$	(5) After Proposed Increase \$
<u>Utility Operating Revenues:</u>					
Wastewater Sales Revenues	14,874,059	184,101 (1)	15,058,160	11,138,505 (10)	26,196,665
Other Wastewater Revenues	1,382,353	0 (2)	1,382,353	(431,038) (11)	951,315
<u>Total Utility Operating Revenues</u>	<u>16,256,412</u>	<u>184,101</u>	<u>16,440,513</u>	<u>10,707,467</u>	<u>27,147,980</u>
<u>Utility Operating Expenses:</u>					
Operating Expenses	5,913,958	1,509,753 (3)	7,423,711	267,687 (12)	7,691,398
Depreciation and Amortization	1,637,601	1,580,752 (4)	3,218,353	0	3,218,353
Taxes Other Than Income Taxes	534,626	1,766,262 (5)	2,300,888	56,125 (13)	2,357,013
Income Taxes	2,918,256	(2,326,698) (6)	591,558	3,873,104 (14)	4,464,662
<u>Total Utility Operating Expenses</u>	<u>11,004,441</u>	<u>2,530,069</u>	<u>13,534,510</u>	<u>4,196,916</u>	<u>17,731,426</u>
<u>Total Net Utility Operating Income (Loss)</u>	<u>5,251,971</u>	<u>(2,345,968)</u>	<u>2,906,003</u>	<u>6,510,551</u>	<u>9,416,554</u>
Other Income and Deductions	(1,272,663)	1,272,663 (7)	0	0	0
Less: Interest Expense	2,145,274	(233,661) (8)	1,911,613	0	1,911,613
Add: Customer Growth	0	55,255 (9)	55,255	123,791 (15)	179,046
<u>Net Income for Margin</u>	<u>4,379,360</u>	<u>(3,329,715)</u>	<u>1,049,645</u>	<u>6,634,342</u>	<u>7,683,987</u>
<u>Operating Margin</u>	<u>26.94%</u>		<u>6.38%</u>		<u>28.30%</u>

Palmetto Utilities, Inc. Docket No. 2017-228-S
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended March 31, 2017

ORS	PUI		Sewer Operations	
Adj. #	Adj. #	Description	ORS	PUI
<u>Accounting and Pro forma Adjustments</u>				
(1)	(18)	<u>Wastewater Sales Revenues</u> To adjust sales revenues to reflect the present rates as calculated by the ORS Utility Rates Department.	\$ 184,101	\$ (33,050)
(2)	(19)	<u>Other Wastewater Revenues</u> & To adjust commercial revenues to reflect the present rates as calculated by the ORS Utility Rates Department.	\$ 0	\$ (522,890)
(3)		<u>Operating Expenses</u>		
(3A)	(8)	To adjust purchased wastewater expense to include the amortization of deferred City of Columbia wastewater treatment costs.	\$ 503,272	\$ 511,775
(3B)	(9)	To adjust purchased wastewater treatment to reflect the elimination of City of Columbia billing for wastewater treatment.	(927,258)	(927,258)
(3C)	(5)	To adjust sludge removal expense based on the increase in flow at the wastewater treatment plant.	1,614	159,929
(3D)	(2)	To adjust purchased power expense to reflect the increase in electricity usage related to the new lift stations.	113,470	524,939
(3E)	(3)	To adjust chemical expense to reflect the increase of flow at the wastewater treatment plant.	0	55,830
(3F)	(21)	To adjust contract services related to management fees.	0	56,503
(3G)	(4)	To adjust contract services related to testing to reflect the increase in cost per service provider estimates.	0	5,042
(3H)	(9)	To adjust other contract services to reflect the elimination of City of Columbia billing for meter reading.	(69,192)	(69,192)
(3I)	(6)	To adjust rent expense to reflect a reduction in rent for the portion allocated to Alpine, Woodlands, and Ni Florida. ORS has included rent expense along with other expenses directly booked to PUI in the calculation of Adjustment 3L, the allocation of corporate overhead expenses.	0	(8,384)
(3J)	(7)	To adjust amortization of rate case expenses.	(16,628)	45,693
(3K)	(11)	To adjust bad debt expense using a 2.5% bad debt percentage. The percentage was provided by the ORS Utility Rates Department.	1,902	(2,701)

Palmetto Utilities, Inc. Docket No. 2017-228-S
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended March 31, 2017

Adj. #	Adj. #	Description	Sewer Operations	
			ORS	PUI
(3L)	(15)	To adjust miscellaneous expenses to include allocated corporate overhead, rent expense, and other expenses directly booked to PUI that need to be allocated.	2,289,922	2,378,220
(3M)	-	To remove nonallowable expenses.	(222,673)	0
(3N)	-	To reclass expenses directly booked to PUI related to the main office and customer service buildings to corporate overhead expenses to be allocated (ORS Adjustment 3L).	(137,873)	0
(3O)		To remove expenses that should be capitalized.	(26,803)	0
(3)		<u>Total Operating Expenses</u>	\$ 1,509,753	\$ 2,730,396
(4)		<u>Depreciation and Amortization</u>		
(4A)	(10)	To adjust depreciation expense to reflect new capital expenditures and other adjustments to plant in service.	\$ 1,502,211	\$ 2,461,543
(4B)	(10)	To adjust amortization of CIAC.	78,541	114,362
(4)		<u>Total Depreciation and Amortization</u>	\$ 1,580,752	\$ 2,575,905
(5)		<u>Taxes Other Than Income</u>		
(5A)		To adjust utility regulatory assessment fees after the accounting and pro forma adjustments using a factor of 0.005241690.	\$ (2,212)	\$ 0
(5B)	(1)	To adjust property taxes to reflect new capital expenditures and adjusted plant in service.	1,768,474	2,625,233
(5)		<u>Total Taxes Other Than Income</u>	\$ 1,766,262	\$ 2,625,233
(6)		<u>Income Taxes</u>		
(6A)	(14)	To adjust federal income taxes on proforma income at 34%.	\$ (1,278,107)	\$ (4,335,227)
(6B)	(13)	To adjust state income taxes on proforma income at 5%.	(174,913)	(648,151)
(6C)	(22)	To exclude deferred income taxes from the proforma revenue requirement.	(873,678)	543,236
(6)		<u>Total Income Taxes</u>	\$ (2,326,698)	\$ (4,440,142)
(7)		<u>Other Income and Deductions</u>		
(7A)	(16)	To reverse losses on disposition of property.	\$ (24,084)	\$ (24,084)

Palmetto Utilities, Inc. Docket No. 2017-228-S
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended March 31, 2017

ORS Adj. #	PUI Adj. #	Description	Sewer Operations	
			ORS	PUI
(7B)	(17)	To exclude AFUDC from the pro-forma revenue requirement.	1,296,747	1,296,747
(7)		<u>Total Other Income and Deductions</u>	\$ <u>1,272,663</u>	\$ <u>1,272,663</u>
(8)	(12)	<u>Interest Expense</u> To synchronize interest expense with the portion of rate base financed by debt.	\$ <u>(233,661)</u>	\$ <u>1,617,604</u>
(9)	-	<u>Customer Growth</u> To adjust for customer growth based on the total net utility operating income after accounting and proforma adjustments. The customer growth factor is 1.90140%.	\$ <u>55,255</u>	\$ <u>0</u>
<u>Proposed Increase</u>				
(10)	(23)	<u>Wastewater Sales Revenues</u> To adjust sales revenues to reflect the proposed rates as calculated by the ORS Utility Rates Department.	\$ <u>11,138,505</u>	\$ <u>11,392,065</u>
(11)	-	<u>Other Wastewater Revenues</u> To adjust commercial revenues to reflect the proposed rates as calculated by the ORS Utility Rates Department.	\$ <u>(431,038)</u>	\$ <u>0</u>
(12)	(24)	<u>Operating Expenses</u> To adjust bad debt expense using a 2.5% bad debt percentage. The percentage was provided by the ORS Utility Rates Department.	\$ <u>267,687</u>	\$ <u>284,802</u>
(13)	(25)	<u>Taxes Other Than Income</u> To adjust utility regulatory assessment fees after the proposed increase adjustments using a factor of 0.005241690.	\$ <u>56,125</u>	\$ <u>61,517</u>
(14)		<u>Income Taxes</u>		
(14A)	(27)	To adjust federal income taxes on the proposed increase income at 34%.	\$ 3,353,921	\$ 3,567,776
(14B)	(26)	To adjust state income taxes on the proposed increase income at 5%.	519,183	552,287
(14)		<u>Total Income Taxes</u>	\$ <u>3,873,104</u>	\$ <u>4,120,063</u>
(15)	-	<u>Customer Growth Adjustment</u> To adjust for customer growth based on the total net utility operating income after the proposed increase. The customer growth factor is 1.90140%.	\$ <u>123,791</u>	\$ <u>0</u>

Palmetto Utilities, Inc.
Docket No. 2017-228-S
Computation of Depreciation and Amortization Expense
For the Test Year Ended March 31, 2017

Audit Exhibit ALB-3
1 of 3

Account Description	1 PUI Filed Per Book Plant in Service at 3/31/17	2 PUI Per Book Adjustments	3 PUI Adjusted Per Book Plant in Service at 3/31/17	4 ORS Fully Depreciated Adjustments	5 ORS Nonallowables from Last Case	6 ORS Current Nonallowables	7 ORS Capitalized Expenses	8 ORS Proforma Plant at 11/16/2017	9 ORS Proforma Retirements at 12/16/17	10 ORS Plant in Service at 11/16/2017	11 Service Life	12 Depreciation Expense
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$		\$
1 Plant in Service												
2												
3												
4 Collection System												
5												
6 Account 360.2 Collection Sewers - Force												
7 PVC - 4" to 30" - Fully Depreciated	22,097	-	22,097	-	-	(22,097)	-	-	-	-	10	10
8 PVC - 4" to 30"	4,364,586	9,748	4,374,334	-	-	(111,629)	-	58,606	-	4,221,311	30	140,710
9 DIP - 4" to 30"	442,033	-	442,033	-	-	(293,424)	-	-	-	148,609	30	4,954
10 Air Release Manholes	99,816	-	99,816	-	-	-	-	-	-	99,816	30	3,327
11 Total Account 360.2	4,828,532	9,748	4,838,280	-	-	(427,150)	-	58,606	-	4,469,736		148,991
12												
13 Account 361.2 Collection Sewers - Gravity												
14 PVC - 4" to 30" - Fully Depreciated	40,068	-	40,068	-	-	(40,068)	-	-	-	-	10	10
15 PVC - 4" to 30"	41,415,556	(503,937)	40,911,619	-	-	(16,107,385)	-	30,844,795	-	55,649,029	45	1,236,645
16 DIP - 8" to 24"	2,470,840	177,339	2,648,179	-	-	(830,612)	-	-	-	1,817,567	45	40,390
17 Manholes - Fully Depreciated	275,507	-	275,507	123,702	-	(399,209)	-	-	-	-	10	10
18 Manholes	18,478,651	170,005	18,648,656	(123,702)	-	(7,667,065)	-	10,633	-	10,868,522	30	362,264
19 Total Account 361.2	62,680,622	(156,593)	62,524,029	-	-	(25,044,339)	-	30,855,428	-	68,335,118		1,639,319
20												
21 Account 363.2 Services to Customers												
22 Services - Fully Depreciated	18,455	-	18,455	33,717	-	(52,172)	-	-	-	-	10	10
23 Services	4,907,585	9,373	4,916,958	(33,717)	(4,234)	(2,580,994)	1,740	12,456	-	2,303,209	38	60,611
24 Elder Valves	1,657,951	29,695	1,687,646	-	-	-	-	-	-	1,687,646	38	44,812
25 Grease Traps	13,015	530	13,545	-	-	-	-	-	-	13,545	38	356
26 Total Account 363.2	6,597,006	39,598	6,636,604	-	(4,234)	(2,642,166)	1,740	12,456	-	4,004,400		105,379
27												
28 Account 364.2 Flow Measuring Devices	43,856	-	43,856	-	-	-	-	-	-	43,856	5	8,771
29												
30 Total Collection Plant	74,150,016	(107,247)	74,042,769	-	(4,234)	(28,113,655)	1,740	30,926,490	-	76,853,110		1,902,460
31												
32 Pumping Plant												
33 Account 354.3 Structures and Improvements - Fully Depreciated	194,623	-	194,623	49,822	-	(244,445)	-	-	-	-	10	10
34 Account 354.3 Structures and Improvements	3,752,683	-	3,752,683	(49,822)	-	(302,952)	-	4,478,460	(183,936)	7,694,433	32	240,451
35 Account 371.3 Pumping Equipment - Fully Depreciated	-	-	-	1,597,752	-	(682,347)	-	-	-	915,405	10	10
36 Account 371.3 Pumping Equipment	8,847,339	22,301	8,869,640	(1,597,752)	-	(847,828)	-	72,332	(544,172)	5,952,230	18	329,675
37												
38 Total Pumping Plant	12,794,645	22,301	12,816,946	-	-	(2,077,572)	-	4,558,792	(728,108)	14,562,058		570,126
39												
40 Treatment and Disposal Plant												
41												
42 Account 353.4 Land and Land Rights	691,324	(262,599)	428,725	-	-	-	-	-	-	428,725	N/A	-
43 Account 354.4 Structures and Improvements	1,505,923	17,737	1,523,660	-	-	-	18,656	11,341	-	1,554,057	32	48,564
44 Account 355.4 Power Generating Equipment	533,941	(73)	533,868	-	-	-	-	-	-	533,868	20	36,693
45 Account 371.4 Pumping Equipment - Fully Depreciated	74,191	-	74,191	250,245	-	-	-	-	-	324,436	10	10
46 Account 371.4 Pumping Equipment	655,348	-	655,348	(250,245)	-	-	-	-	-	405,103	18	21,963
47 Account 380.4 Treat. and Disp. - Fully Depreciated	115,158	-	115,158	1,523,809	-	-	-	-	-	1,638,967	10	10
48 Account 380.4 Treatment and Disposal Equipment	10,244,686	1,383	10,246,069	(1,523,809)	-	(136,668)	-	15,719,191	-	24,304,783	18	1,348,187
49 Account 381.4 Plant Sewers	462,441	-	462,441	-	-	-	-	-	-	462,441	35	13,213
50 Account 382.4 Outfall Sewer Lines - Fully Depreciated	-	-	-	110,385	-	-	-	-	-	110,385	10	10
51 Account 382.4 Outfall Sewer Lines	1,670,359	-	1,670,359	(110,385)	-	-	4,692	19,522,188	-	21,086,854	30	702,895
52 Account 389.4 Other Plt and Misc. Eq. - Fully Depreciated	540,871	-	540,871	-	-	-	-	-	-	540,871	10	10
53 Account 389.4 Other Plant and Miscellaneous Equip.	1,159,051	-	1,159,051	-	-	-	-	-	-	1,159,051	18	64,392
54												
55 Total Treatment and Disposal Plant	17,653,293	(243,552)	17,409,741	-	-	(136,668)	23,348	35,253,120	-	52,549,541		2,325,907
56												
57 General Plant												
58												
59 Account 353.7 Land and Land Rights	1,331,796	262,599	1,594,395	-	-	(253,509)	-	7,277	-	1,348,163	N/A	-
60												
61 Account 354.7 Structures and Improvements												
62 Structures and Improvements	41,111	-	41,111	-	(8,270)	-	-	-	-	32,841	27	1,216
63 Structures and Improvements - 1710 Woodcock	650,000	-	650,000	-	-	(180,869)	-	-	-	469,131	35	13,404
64 Leasehold Improvements - Other	138,928	-	138,928	-	(34,504)	-	1,238	-	-	76,685	22	3,482
65 Leasehold Improvements - Paving - Fully Depreciated	3,716	-	3,716	-	(3,716)	-	-	-	-	-	10	10
66												
67 Total Account 354.7	833,755	-	833,755	-	(46,490)	(209,926)	1,238	-	-	578,577		18,102

Computation of Depreciation and Amortization Expense
For the Test Year Ended March 31, 2017

Account Description	1 PUI Filed Per Book Plant in Service at 3/31/17	2 PUI Per Book Adjustments	3 PUI Adjusted Per Book Plant in Service at 3/31/17	4 ORS Fully Depreciated Adjustments	5 ORS Nonallowables from Last Case	6 ORS Current Nonallowables	7 ORS Capitalized Expenses	8 ORS Proforma Plant at 11/16/2017	9 ORS Proforma Retirements at 11/16/17	10 ORS Plant in Service at 11/16/2017	11 Service Life	12 Depreciation Expense
Account 390.7 Office Furniture and Equipment												
Furniture and Equipment - Fully Depreciated				20,307	-	-	-	-	-	20,307	10	140
Furniture and Equipment	66,167	-	66,167	(20,307)	(1,381)	(2,098)	-	-	-	42,581	15	2,775
Computers - Fully Depreciated	112,616	-	112,616	-	-	-	-	-	-	112,616	10	140
Computers	219,037	-	219,037	-	(1,500)	(9,062)	-	1,560	-	210,035	6	31,128
Total Account 390.7	398,020	-	398,020	-	(2,881)	(11,160)	-	1,560	-	385,539		33,903
Account 391.7 Transportation Equipment - Fully Depreciated				15,350	-	-	-	-	-	15,350	10	140
Account 391.7 Transportation Equipment	125,779	-	125,779	(15,350)	-	-	-	381,215	-	491,644	6	81,941
Account 392.7 Stores Equipment	3,171	-	3,171	-	-	-	-	-	-	3,171	18	176
Account 393.7 Tools, Shop and Garage Equip - Fully Depreciated				14,160	-	-	-	-	-	14,160	10	140
Account 393.7 Tools, Shop and Garage Equipment	116,973	-	116,973	(14,160)	-	-	-	7,466	-	110,279	16	6,892
Account 394.7 Laboratory Equipment	20,193	-	20,193	-	-	-	-	2,436	-	22,629	15	1,509
Account 395.7 Power Operated Equipment	211,489	-	211,489	-	-	-	-	46,260	-	257,749	12	21,479
Account 396.7 Communication Equipment	53,680	(3,531)	50,149	-	(3,706)	-	-	52,531	-	98,974	10	9,897
Account 397.7 Miscellaneous Equipment	14,879	-	14,879	-	-	-	-	-	-	14,879	10	1,488
Account 398.7 Other Tangible Plant - Water Force Main	23,833	-	23,833	-	-	-	-	-	-	23,833	30	794
Account 398.7 Other Tangible Plant - Other	177,411	-	177,411	-	-	-	-	-	-	177,411	10	17,741
Total General Plant	3,310,979	259,068	3,570,047	-	(53,077)	(474,595)	1,238	498,745	-	3,542,458		193,922
Total Plant in Service	107,908,933	(69,430)	107,839,503	-	(57,311) **	(30,802,490)	26,326	71,229,147	(728,108)	147,507,067		4,892,415
											Per Book Adjustment 4A	3,390,204
												1,502,211
											Accumulated Depreciation as of 12/31/17	(32,929,140)

Palmetto Utilities, Inc.
Docket No. 2017-228-S
Computation of Depreciation and Amortization Expense
For the Test Year Ended March 31, 2017

	1	2	3	4	5	6	7	8	9
Account Description	PUI Filed Per Book CIAC at 3/31/17	PUI Per Book Adjustments	PUI Adjusted Per Book CIAC at 3/31/17	ORS Fully Amortized Adjustments	ORS Current Nonallowables	ORS Proforma Retirements at 11/16/17	ORS CIAC In Service at 11/16/2017	Service Life	Amortization Expense
1 CIAC	\$	\$	\$	\$	\$	\$	\$		\$
2									
3 Collection System									
4									
5 Account 360.2 Collection Sewers - Force									
6 PVC - 4" to 30"	(2,866,155)	-	(2,866,155)	-	-	-	(2,866,155)	30	(95,539)
7 DIP - 4" to 30"	(131,213)	-	(131,213)	-	-	-	(131,213)	30	(4,374)
8 Air Release Manholes	(8,362)	-	(8,362)	-	-	-	(8,362)	30	(279)
9 Total Account 360.2	(3,005,730)	-	(3,005,730)	-	-	-	(3,005,730)		(100,192)
10									
11 Account 361.2 Collection Sewers - Gravity									
12 PVC - 4" to 30"	(19,520,545)	439,580	(19,080,965)	-	-	-	(19,080,965)	45	(424,021)
13 DIP - 8" to 24"	(1,629,970)	(177,339)	(1,807,309)	-	-	-	(1,807,309)	45	(40,162)
14 Manholes	(9,466,948)	(166,815)	(9,633,763)	-	-	-	(9,633,763)	30	(321,125)
15 Total Account 361.2	(30,617,463)	95,426	(30,522,037)	-	-	-	(30,522,037)		(785,308)
16									
17 Account 363.2 Services to Customers									
18 Services	(2,075,597)	(65,732)	(2,141,329)	-	-	-	(2,141,329)	38	(56,351)
19 Elder Valves	(1,543,546)	(29,694)	(1,573,240)	-	-	-	(1,573,240)	38	(41,401)
20 Grease Traps	(8,609)	-	(8,609)	-	-	-	(8,609)	38	(227)
21 Total Account 363.2	(3,627,752)	(95,426)	(3,723,178)	-	-	-	(3,723,178)		(97,979)
22									
23 Account 364.2 Flow Measuring Devices	(27,635)	-	(27,635)	-	-	-	(27,635)	5	(5,527)
24									
25 Total Collection Plant	(37,278,580)	-	(37,278,580)	-	-	-	(37,278,580)		(989,006)
26									
27 Pumping Plant									
28									
29 Account 354.3 Structures and Improvements	(3,092,289)	-	(3,092,289)	-	-	(64,109)	(2,928,180)	32	(91,506)
30 Account 371.3 Pumping Equipment - Fully Amortized	-	-	-	(798,493)	-	-	(798,493)	FA	-
31 Account 371.3 Pumping Equipment	(4,923,009)	21,580	(4,901,429)	798,493	-	(320,028)	(3,782,908)	18	(209,216) *
32									
33 Total Pumping Plant	(8,015,298)	21,580	(7,993,718)	-	-	484,137	(7,509,581)		(300,722)
34									
35 Treatment and Disposal Plant									
36									
37 Account 353.4 Land and Land Rights	(222,033)	-	(222,033)	-	-	-	(222,033)	N/A	-
38 Account 354.4 Structures and Improvements	(793,474)	-	(793,474)	-	-	-	(793,474)	32	(24,796)
39 Account 355.4 Power Generating Equipment	(230,632)	2,758	(227,874)	-	-	-	(217,874)	30	(10,894)
40 Account 371.4 Pumping Equipment - Fully Amortized	(16,240)	-	(16,240)	(111,727)	-	-	(127,967)	FA	-
41 Account 371.4 Pumping Equipment	(401,006)	-	(401,006)	111,727	-	-	(289,279)	18	(15,739) *
42 Account 380.4 Treatment and Disposal Equip - Fully Amortized	-	-	-	(683,661)	-	-	(683,661)	FA	-
43 Account 380.4 Treatment and Disposal Equipment	(5,708,046)	29,152	(5,678,894)	683,661	-	-	(4,995,233)	18	(276,189) *
44 Account 381.4 Plant Sewers	(333,087)	-	(333,087)	-	-	-	(333,087)	35	(9,517)
45 Account 382.4 Outfall Sewer Lines - Fully Amortized	-	-	-	(23,161)	-	-	(23,161)	FA	-
46 Account 382.4 Outfall Sewer Lines	(275,382)	-	(275,382)	23,161	-	-	(252,221)	30	(8,407)
47 Account 389.4 Other Plant and Miscellaneous Equip - Fully Amortized	-	-	-	(164,194)	-	-	(164,194)	FA	-
48 Account 389.4 Other Plant and Miscellaneous Equip	(862,441)	-	(862,441)	164,194	-	-	(698,247)	18	(38,792)
49									
50 Total Treatment and Disposal Plant	(8,832,341)	31,910	(8,800,431)	-	-	-	(8,800,431)		(384,334)
51									
52 General Plant									
53									
54 Account 353.7 Land and Land Rights	(105,731)	-	(105,731)	-	105,731	-	-	N/A	-
55									
56 Total Plant in Service - CIAC	(54,231,950)	53,490	(54,178,460)	-	105,731	484,137	(53,588,592)		(1,674,062)
57									
58 FA - Fully Amortized								Per Book	(1,752,603)
59 FD - Fully Depreciated								Adjustment 4B	78,541
60 N/A - Not Depreciated									
61								Accumulated Amortization as of 12/31/17	21,792,228

* - Will not calculate. Some assets in these categories do not have a full year worth of depreciation or amortization expense left.

** - A \$22,000 vehicle was disallowed in the last rate case. The Company did not make the adjustments made in the last rate case, but this

Palmetto Utilities, Inc. Docket No. 2017-228-S
Computation of Income Taxes
For the Test Year Ended March 31, 2017

After Accounting & Pro Forma Adjustments	
	\$ Wastewater Operations
Operating Revenues	16,440,513
Operating Expenses	12,942,952
Net Operating Income Before Taxes	3,497,561
Less: Annualized Interest Expense	1,911,613
Taxable Income - State	1,585,948
State Income Tax %	5.0%
State Income Taxes	79,297
Less: State Income Taxes Per Book	254,210
Adjustment to State Income Taxes	(174,913)
Taxable Income - Federal	1,506,651
Federal Income Taxes %	34.0%
Federal Income Taxes	512,261
Less: Federal Income Taxes Per Book	1,790,368
Adjustment to Federal Income Taxes	(1,278,107)
Total Adjustment to Income Taxes	(1,453,020)
After Applicant's Proposed Increase	
	\$ Wastewater Operations
Operating Revenues	27,147,980
Operating Expenses	13,266,764
Net Operating Income Before Taxes	13,881,216
Less: Annualized Interest Expense	1,911,613
Taxable Income - State	11,969,603
State Income Tax %	5.0%
State Income Taxes	598,480
Less: State Income Taxes As Adjusted	79,297
Adjustment to State Income Taxes	519,183
Taxable Income - Federal	11,371,123
Federal Income Taxes %	34.0%
Federal Income Taxes	3,866,182
Less: Federal Income Taxes As Adjusted	512,261
Adjustment to Federal Income Taxes	3,353,921
Total Adjustment to Income Taxes	3,873,104